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AUTOCROWN CORPORATION LIMITED

ANNUAL REPORT 1974

AUTOCROWN CORPORATION LIMITED

DIRECTORS

Richard C. W. Mauran
Hardy E. R. Merker
J. W. Nevil Thomas
William Tynkaluk

OFFICERS

Hardy E. R. Merker,
President

Richard C. W. Mauran,
Vice President

Iliff L. B. Peck
Secretary

TRANSFER AGENT

National Trust Co. Ltd.
Toronto, Ontario

OFFICE OF COMPANY

266 Rexdale Blvd.,
Rexdale, Ontario

January 14, 1975.

To the Shareholders:

I am indeed pleased to report on the operation of our Company for this past fiscal year.

Our sales have increased dramatically from 1.3 million to 3.2 million. Our profits have increased approximately four times from \$57,000 to \$201,000. These dramatic changes reflect the contribution of our two recent acquisitions, Canadian Grinding Wheel Ltd. and Safeguard Sprinkler division. Just as important, a strengthening of sales and profitability in the Eastern Wire & Conduits division.

It should be noted that both sales and profitability would have been greater had we been able to secure the raw materials necessary for conversion to finished goods. The scarcity of raw materials has somewhat eased in the final quarter of 1974; from all indications this situation will continue into the early part of 1975.

We are continuing to modernize the manufacturing facility at Canadian Grinding Wheel, and the realization of profits from this modernization program should become pronounced during the third quarter of 1975.

The sales in our Safeguard division were somewhat hampered due to the scarcity of steel pipe and related supplies. We understand this situation will continue well into 1975. We are confident that we will be able to maintain both our sales and profitability in this division during this coming year.

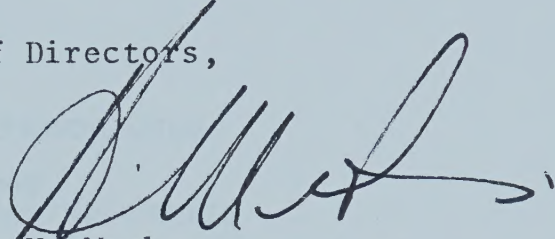
The Eastern Wire & Conduits division experienced increased sales during this past year. Again, we were hampered by the lack of raw material supplies. The situation has alleviated during the third quarter of 1974.

We are moving into the new year with confidence in our management's ability to maintain and indeed increase our sales while ensuring that there is a greater emphasis placed on productivity and profitability.

continued

In closing may I say that we were all saddened to hear of the passing of our senior board member, Mr. Alan Frankel. Alan's keen interest and active concern will be missed by your Board of Directors.

On behalf of the Board of Directors,



H. Merker,
President.

HM/dc

Information covering the various divisions and subsidiaries of Autocrown Corporation Limited.

AUTOCROWN CORPORATION LTD.

DIVISIONS

Taymer Industries

Designs and manufactures the Exacto-Mark sequential marking and measuring machine, and other equipment for the wire and cable industry. There are 300 Exacto-Mark machines in operation in over 13 countries around the world.

Eastern Wire & Conduits

This division manufactures Rayflex aluminum and steel flexible metallic and Hydro-tite liquid tight conduit for the electrical construction industry. These products are used for mechanical protection of electrical conductor raceways. Some applications include electrical lighting and machinery wiring. These products are sold around the world including U.S.A., England, Continental Europe.

In addition, this division produces "Vinarail" plastic hand rail covering for use in the construction industry.

Industrial Trading Division

Imports and exports wire products of all types.

Safeguard Sprinkler Division

Designs and installs sprinkler systems for both new and old buildings. All the sales for this division are currently in Canada.

SUBSIDIARY

Canadian Grinding Wheel Ltd.

This latest acquisition manufactures a wide range of abrasive wheels and stones used throughout industry. Sales are primarily in Canada. However, future expansion includes plans to broaden both the products and the marketing areas.

AUTOCROWN CORPORATION LIMITED
AND SUBSIDIARY COMPANIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
SEPTEMBER 30, 1974

December 18, 1974.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Autocrown Corporation Limited and subsidiaries as at September 30, 1974 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

The 1973 comparative figures were reported on by the company's previous auditors and as we were not the auditors for the prior year we are unable to form an opinion on the inventory valuation of a subsidiary at the beginning of the year. Accordingly, we do not express an opinion on the consolidated statements of earnings, deficit and changes in financial position for the year ended September 30, 1974.

In our opinion the consolidated balance sheet presents fairly the financial position of the companies as at September 30, 1974, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants.

AUTOCROWN CORP
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS

	1974 \$	1973 \$
CURRENT ASSETS		
Cash and short-term investments	2,313	123,893
Accounts receivable (note 3)	654,692	439,551
Inventories — at the lower of cost and net realizable value —		
Raw materials	480,314	170,796
Work in process	149,082	87,255
Finished goods	324,439	226,606
	953,835	484,657
Prepaid expenses	12,534	12,409
	1,623,374	1,060,510
LONG-TERM LEASE CONTRACTS RECEIVABLE — (net) of unearned discount of \$16,351 (less current portion included with current accounts receivable)	30,960	33,175
FIXED ASSETS — at cost		
Land	50,838	49,946
Buildings	180,743	180,347
Machinery and equipment	580,538	436,202
Automotive equipment	48,329	43,039
Office furniture and fixtures	17,961	10,430
Leasehold improvements	8,655	7,655
	887,064	727,619
Less: Accumulated depreciation	456,728	377,682
	430,336	349,937
PATENTS — at nominal value	1	1
	2,084,671	1,443,623

SIGNED ON BEHALF OF THE BOARD

Richard C. W. Mauran

Director

Hardy E. R. Merker

Director

RATION LIMITED
COMPANIES
AS AT SEPTEMBER 30, 1974

LIABILITIES

	1974 \$	1973 \$
CURRENT LIABILITIES		
Bank indebtedness (note 3)	356,089	272,981
Accounts payable and accrued charges	633,635	280,960
Income taxes payable	18,218	—
Current portion of long-term debt (note 4)	65,800	57,400
	<u>1,073,742</u>	<u>611,341</u>
LONG-TERM LIABILITIES (note 4)	<u>489,660</u>	<u>513,892</u>
	<u>1,563,402</u>	<u>1,124,233</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5)

Authorized —		
153,065 5% non-cumulative, convertible preference shares with a par value of \$2.00 each, redeemable at par		
1,096,935 common shares without par value		
Issued —		
143,065 preference shares (1973 - 145,065)	286,130	290,130
681,935 common shares (1973 - 679,935)	649,567	645,567
CONTRIBUTED SURPLUS	68,381	68,381
DEFICIT	<u>(482,809)</u>	<u>(684,688)</u>
	521,269	319,390
	<u>2,084,671</u>	<u>1,443,623</u>

**AUTOCROWN CORPORATION LIMITED
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED SEPTEMBER 30, 1974**

	1974 \$	1973 \$
DEFICIT — BEGINNING OF YEAR	684,688	741,948
Net earnings for the year	<u>201,879</u>	<u>57,260</u>
DEFICIT — END OF YEAR	<u><u>482,809</u></u>	<u><u>684,688</u></u>

**CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 1974**

	1974 \$	1973 \$
SALES	3,214,798	1,313,014
COST OF SALES	<u>2,214,570</u>	<u>921,114</u>
GROSS PROFIT	<u>1,000,228</u>	<u>391,900</u>
EXPENSES		
Selling	342,372	191,039
Administrative	296,373	113,964
Depreciation	80,923	18,022
Interest on long-term debt including amortization of discount of \$17,968 (1973 - \$5,485)	<u>60,181</u>	<u>11,615</u>
	<u>779,849</u>	<u>334,640</u>
	220,379	57,260
PROVISION FOR INCOME TAXES	<u>92,152</u>	<u>25,800</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	128,227	31,460
EXTRAORDINARY ITEM		
Recovery of income taxes on application of prior years' losses	<u>73,652</u>	<u>25,800</u>
NET EARNINGS FOR THE YEAR	<u><u>201,879</u></u>	<u><u>57,260</u></u>
EARNINGS PER SHARE (note 7)	\$	\$
Earnings before extraordinary item —		
Basic	<u>0.188</u>	<u>0.046</u>
Fully diluted	<u><u>0.156</u></u>	<u><u>0.059</u></u>
Net earnings —		
Basic	<u>0.296</u>	<u>0.084</u>
Fully diluted	<u><u>0.227</u></u>	<u><u>0.084</u></u>

**AUTOCROWN CORPORATION LIMITED
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1974**

	1974 \$	1973 \$
SOURCE OF WORKING CAPITAL		
Provided from operations —		
Earnings before extraordinary item	128,227	31,460
Charges (credits) not affecting working capital —		
Depreciation	80,923	18,022
Provision for deferred income taxes	73,652	25,800
Amortization of discount on debentures	17,968	5,485
Amortization of discount on lease receivables	(2,903)	(2,575)
	<u>297,867</u>	<u>78,192</u>
Working capital of acquired businesses at date of acquisition —		
Canadian Grinding Wheel Company Limited	—	193,365
Safeguard Sprinkler Systems	—	9,605
Long-term bank loan	24,600	—
Current instalments on lease receivables	5,118	10,148
	<u>327,585</u>	<u>291,310</u>
USE OF WORKING CAPITAL		
Purchase of fixed assets (net)	161,322	14,978
Current instalments due on long-term debt	65,800	57,400
	<u>227,122</u>	<u>72,378</u>
INCREASE IN WORKING CAPITAL	100,463	218,932
WORKING CAPITAL — BEGINNING OF YEAR	<u>449,169</u>	<u>230,237</u>
WORKING CAPITAL — END OF YEAR	<u><u>549,632</u></u>	<u><u>449,169</u></u>

AUTOCROWN CORPORATION LIMITED
AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 1974

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company and all of its subsidiaries.

The subsidiaries are:

Autocrown Corporation Inc., which operates in the United States.

Canadian Grinding Wheel Company Limited, which was acquired effective August 31, 1973 (see note 2).

Taymer Industries Limited and Eastern Wire and Conduits Limited, which have no assets or liabilities and did not operate in 1974 or 1973.

The assets and liabilities of the U.S. subsidiary have been translated into Canadian dollars at year end rates of exchange and its earnings at average rates of exchange prevailing during the year.

The results of operations of Canadian Grinding Wheel Company Limited included in the 1974 fiscal period are for thirteen months.

2. ACQUISITION OF CANADIAN GRINDING WHEEL COMPANY LIMITED (CGW)

Under the terms of the acquisition agreement, part of the purchase price was held back as security for the warranties in the agreement. During the year the Company paid a further \$10,865 out of the holdback for the shares of C.G.W. The vendors of the shares have commenced an action against the company for payment of the balance of the holdback in the amount of \$62,135 and interest from December 31, 1973. Management is considering its position relative to this claim.

Total consideration given and net assets acquired are as follows:

	1973	1974	Total
Fair value of consideration	\$633,461	\$10,865	\$644,326
Net assets acquired (including adjustment of \$139,358 of fixed assets to fair values at date of acquisition)	\$633,461	\$10,865	\$644,326

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. BANK INDEBTEDNESS

Bank indebtedness is secured by a pledge of accounts receivable plus a second floating charge on all other assets of the companies.

4. LONG-TERM LIABILITIES	1974 \$	1973 \$
11½% debenture, payable in monthly instalments to 1981	285,600	300,000
9% bank loan payable in monthly instalments of \$300	24,600	—
Non-interest bearing debenture payable to the vendors of CGW in annual instalments to 1978	140,000	175,000
Less: Unamortized discount reflecting an imputed after tax interest rate of 8%	23,497	35,245
	116,503	139,755
12% debenture due 1978 to 1980	100,190	100,190
Less: Unamortized discount on issuance	18,812	22,312
	81,378	77,878
Non-interest bearing unsecured convertible debentures due in annual instalments to 1982	72,000	80,000
Less: Unamortized discount reflecting an imputed after tax interest rate of 6%	24,621	27,341
	47,379	52,659
	555,460	570,292
Less: Principal payments due within one year, included in current liabilities	65,800	57,400
	489,660	513,892
The convertible debentures are due to shareholders.		

(a) Security —

The 11½ % debenture is secured by a specific first charge on fixed assets, a pledge of the shares of CGW, and a first floating charge on all other assets (subordinate to security given to the bank) of the companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The non-interest bearing debenture payable to the vendors of CGW is secured by a third floating charge on the assets of CGW.

The 12% debenture is secured by a third floating charge on the assets of the parent company.

(b) Convertible debentures —

The non-interest bearing convertible debentures are convertible into common shares of the company at any time prior to maturity on the basis of one common share for each \$2.00 of principal outstanding. Required annual sinking fund instalments are the greater of \$8,000 or 50% of the increase in the working capital of the Safeguard division of the company and are transferred at the date of payment to the lender.

(c) Principal payments in the next five years—

Minimum principal payments on long-term debt in the next five fiscal years are as follows:

	\$
1975	65,800
1976	65,800
1977	108,600
1978	106,600
1979	71,600

(d) Restrictive covenants —

Included in the various restrictive covenants imposed by the secured debentures is a requirement that consolidated working capital shall not be less than \$50,000. In addition, the unsecured convertible debentures prohibit payment of dividends and the redemption or purchase for cancellation of the company's common shares.

5. CAPITAL STOCK

The preference shares are convertible into common shares at the option of the holder on a share for share basis. During the year 2,000 shares were converted.

As at September 30, 1974 unissued common shares of the company were reserved as follows:

	Number of shares
(a) For issuance on conversion of preference shares	143,065
(b) For issuance on exercise of share purchase warrants entitling the holders to purchase common shares at a price of \$3.00 per share up to December 30, 1983	175,000
(c) For issuance on conversion of debentures	36,000
	<hr/> 354,065

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. INCOME TAXES

The company and its subsidiaries have the following amount available to reduce future years' taxable income:

	\$
Capital cost allowance in excess of net book value of fixed assets	224,000

7. EARNINGS PER COMMON SHARE

Fully diluted earnings per common share have been computed on the assumption that all of the preference shares had been converted into common shares as of the beginning of the year, that purchase warrants had been exercised, that convertible debentures had been converted (note 5) and that the proceeds of share warrants would yield income equal to an interest rate of 5½% after tax.

8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of directors and senior officers (as defined under the Business Corporations Act) was \$109,800 in 1974 and \$62,600 in 1973.

9. COMMITMENTS AND CONTINGENCIES

The company is committed under a long-term lease to rentals of \$26,000 a year to 1978.

The company is contingently liable in the amount of \$37,000 in respect of long-term lease receivables discounted with finance companies.

10. COMPARATIVE FIGURES

Certain 1973 figures have been reclassified for comparative purposes.

